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Strategy and Risk: New Relationships among Governance, Brand and Leadership

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Strategy and Risk: New Relationships among Governance, Brand and Leadership

Corporate Responsibility and Global
Business Conference: Implications for
Corporate and Marketing Strategy
London Business School
July 13, 2006

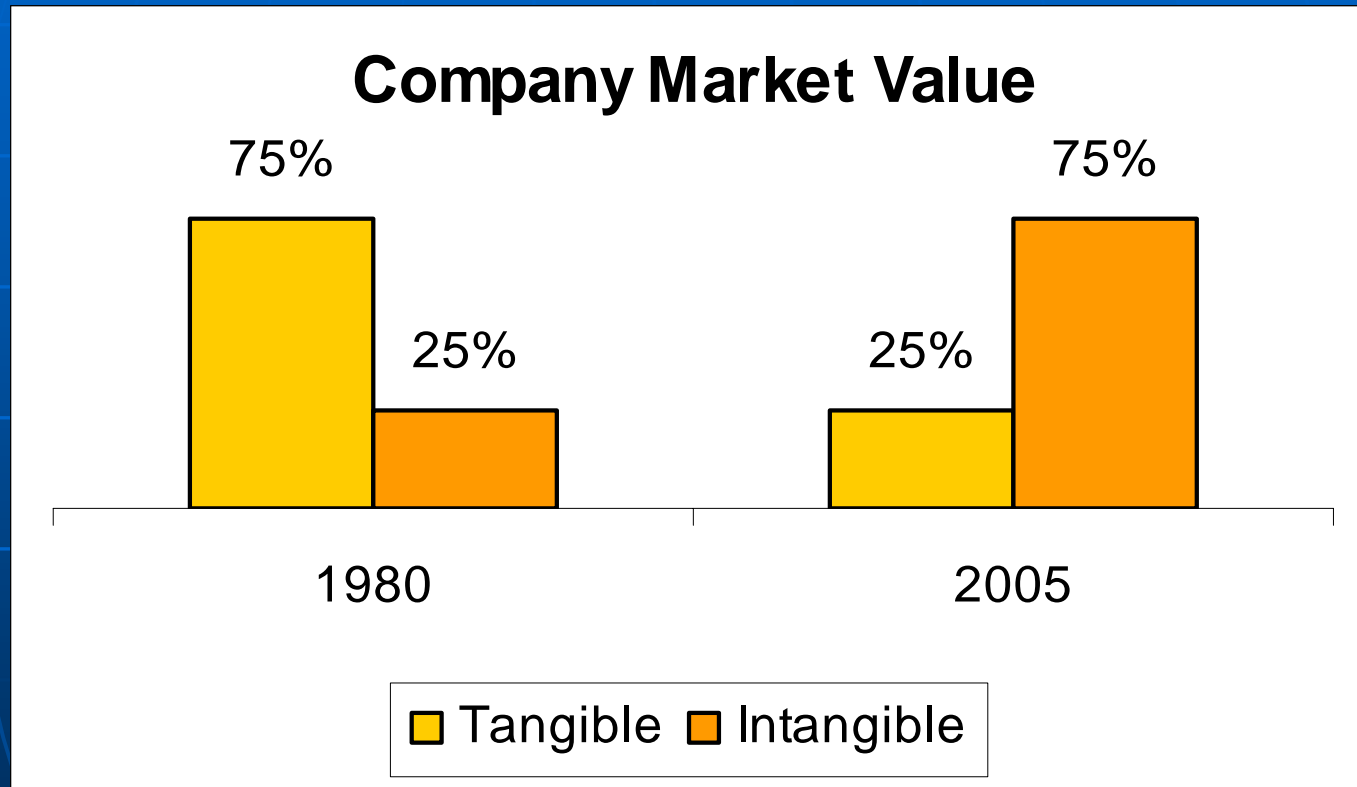
Nicholas Imparato

Professor, University of San Francisco

Research Fellow, Hoover Institution, Stanford University

A competitive product or a competitive strategy is not the same thing as a competitive organization.

THE RISE OF INTANGIBLE ASSETS



Kenton, Christopher, "Value Beyond the Balance Sheet,"
Businessweek, February 1, 2005

Financial Statement Reporting Brand Value

Microsoft

- | | |
|-----------------------------------|---|
| ■ Goodwill reported | ■ Current Market Cap: \$260B ² |
| ■ Brand not reported ¹ | ■ Current Brand Value: \$60B ³ |

PepsiCo

- | | |
|-------------------------------|---|
| ■ Goodwill reported | ■ Current Market Cap: \$95B ⁵ |
| ■ Brand reported ⁴ | ■ Current Brand Value: \$12B ^{3,6} |

1. Microsoft 2005 Annual Report

2. Yahoo Finance: <http://finance.yahoo.com/q?s=MSFT&d=t>

3. Berner, Robert & David Kiley, Global Brands, Business Week, July 2005

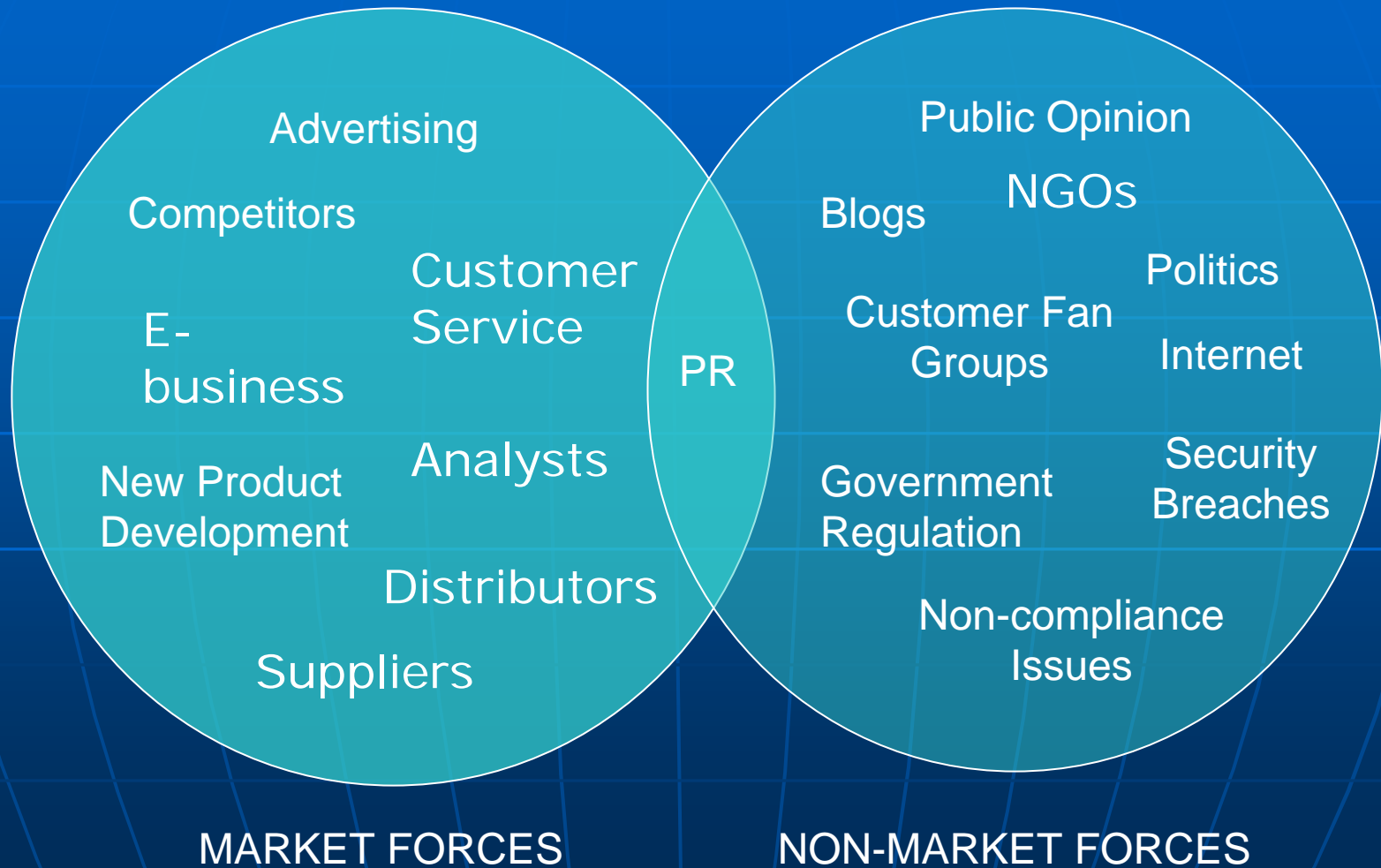
4. PepsiCo 2004 Annual Report

5. Yahoo Finance: <http://finance.yahoo.com/q?s=PEP&d=t>

6. Pepsi Brand

Adapted from "Brand and the Non-market," Rachel Kolenda, Steve Lindheim and George DeVries, MBA Program, USF, 2005.

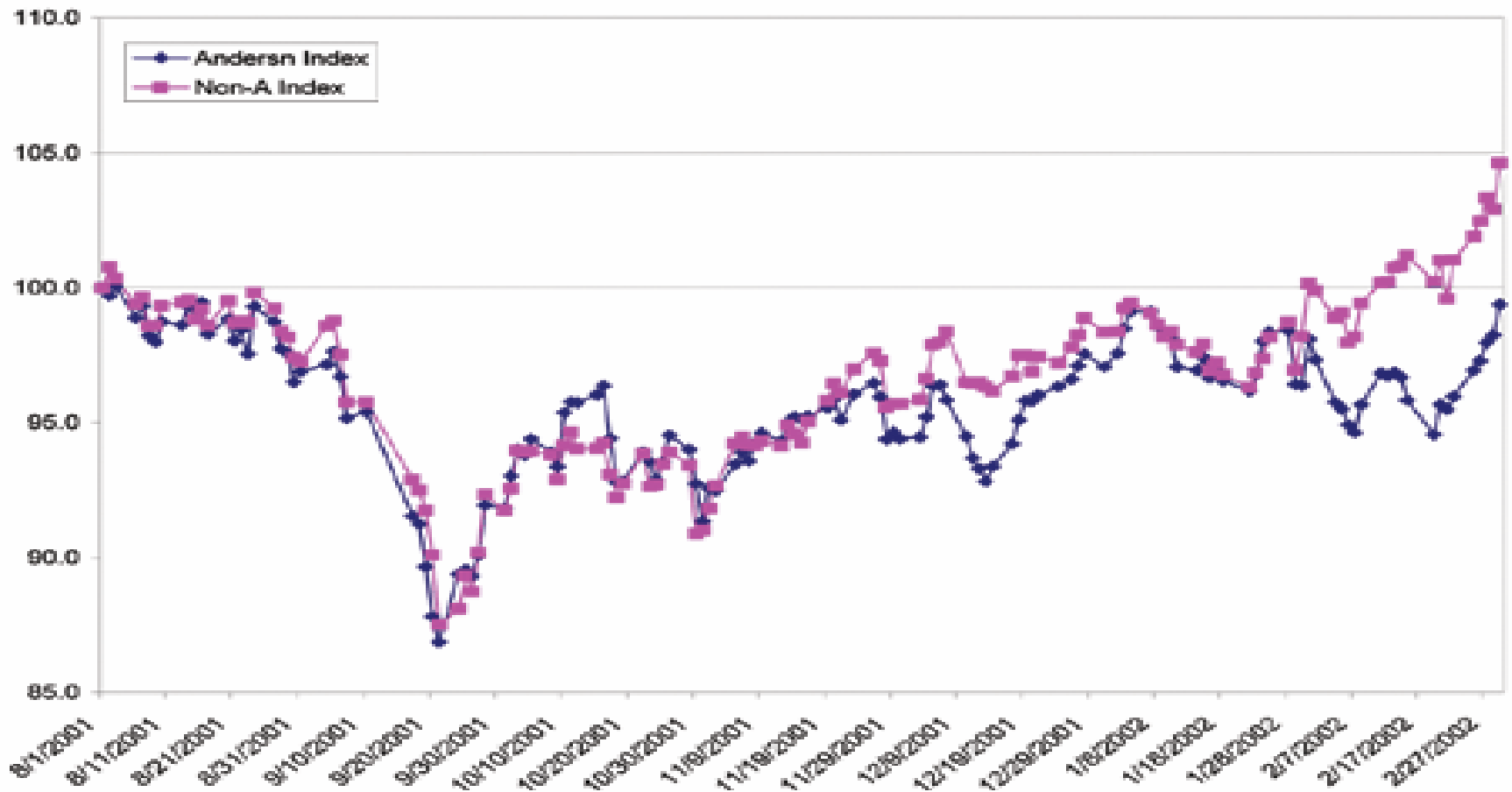
Brand Valuation Drivers



Adapted from "Brand and the Non-market," Rachel Kolenda, Steve Lindheim and George DeVries, MBA Program, USF, 2005.

Why Companies Left ⁽¹⁾

**Stock Prices of Andersen-audited Firms vs Non-Andersen-audited Firms
(20 firms in each portfolio matched by size and industry)**

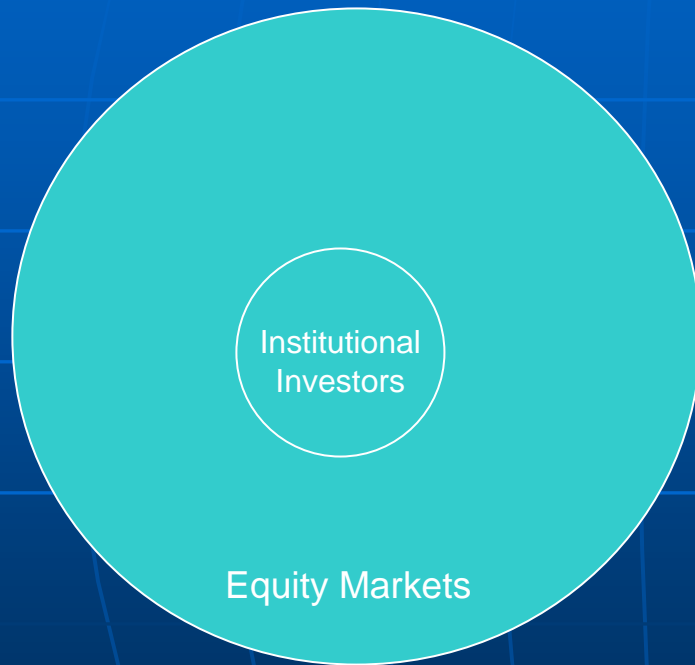


(1) Thies, Clifford S. "The Demise of Arthur Anderson" http://www.gold-eagle.com/editorials_02/thies041502.html

Adapted from "Brand and the Non-market," Rachel Kolenda, Steve Lindheim and George DeVries, MBA Program, USF, 2005.

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Capital Markets



Yesterday



Today

Corporate Discipline

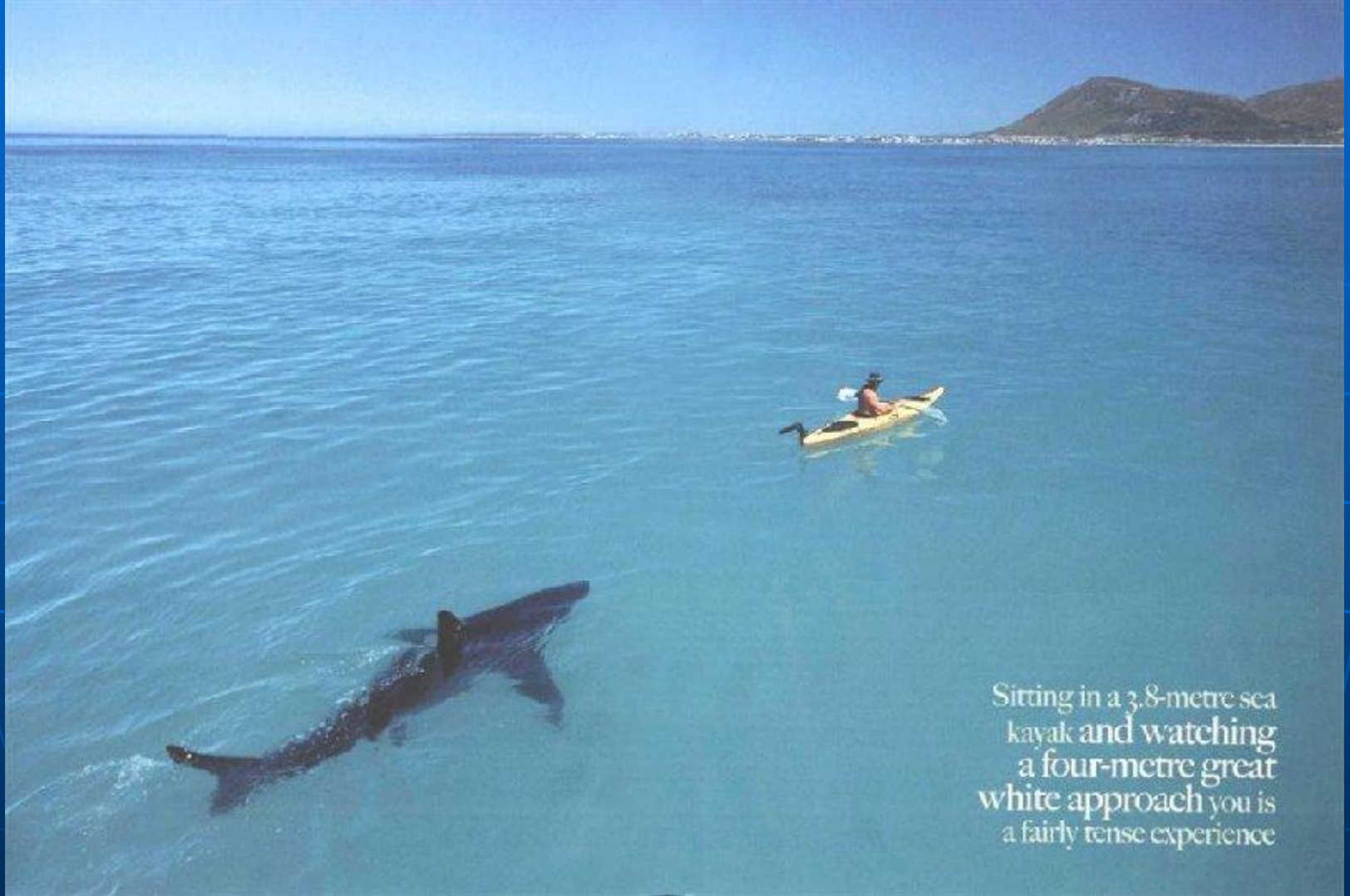


Gmail Complaint Co-signatories¹

- Australian Privacy Foundation
- Grayson Barber, Privacy Advocate
- Bits of Freedom (Netherlands)
- British Columbia Civil Liberties Association (Canada)
- Calegislation
- CASPIAN (Consumers Against Supermarket Privacy Invasion)
- Consumer Action
- Consumer Federation of America
- Consumer Federation of California
- Consumer Task Force for Automotive Issues
- Electronic Privacy Information Center
- Federación de Consumidores en Acción (FACUA) (Spain)
- Foundation for Information Policy Research (United Kingdom)
- Mari Frank, Esq., Author of Identity Theft Survival Kit
- Simson L. Garfinkel, Author of Database Nation
- Edward Hasbrouck, Author and Consumer Advocate
- Massachusetts Consumer Assistance Council
- Massachusetts Consumers' Coalition
- National Association of Consumer Agency Administrators (NACAA)
- National Consumers League
- PrivacyActivism
- Privacy International (United Kingdom)
- Privacy Rights Now Coalition
- Privacy Times
- Private Citizen, Inc.
- Privaterra (Canada)
- Public Information Research, Inc.
- Utility Consumers' Action Network

¹"Thirty-One Privacy and Civil Liberties Organizations Urge Google to Suspend Gmail" <http://www.privacyrights.org>. Accessed on 11/1/2005.

Adapted from "NGO's and the Non-Market," Monette Kaylani and Greg Pedersen, MBA Program, USF, 2005.



Cost of Security Breaches

- Nearly 20% of victims terminated their relationships with the company immediately
- 40% were considering terminating
- 5% hired lawyers to seek legal recourse

Ponemon Institute Survey of 51,000 victims, sponsored by White & Case LLS 2005

Adapted from "Brand and the Non-market," Rachel Kolenda, Steve Lindheim and George DeVries, MBA Program, USF, 2005.

Highlights of Program and Current Study Methodology

- Phase 1: In-depth interviews with prominent CEOs, thought leaders (principal investigator)
- Phase 2: 300 interviews by experienced brand valuation firm (CoreBrand)
- Corporate Branding Index®, Unique database of 1200 companies across 47 industries, 12,000 interviews per year
- Proprietary algorithm measuring brand equity, incorporating economic and financial performance data as well as image surveys
- 15 years of data

Highlights of Program and Current Study Methodology (cont.)

- Brand strength reflects perceptions of reputation, management and investment potential (Corporate Branding Index®)
- 40 sample firms, 3 sectors: Finance (21), Retail (8) and Healthcare (19)
- Subject of interest: relationships among true believers/strong endorsers
- Phases 3-4: Further interviews and survey samples with new protocols, data analyses

Industry/Sector Analyses: True Believers/Strong Endorsers

Brand Strength (Image)

Aggregate	35.2
Finance	26.2
Retail	70.3
Healthcare	26.9

Industry/Sector Analyses: True Believers/Strong Endorsers

Protecting customer information

Aggregate	50.9
Finance	54.9
Retail	52.2
Healthcare	42.5

Industry/Sector Analyses: True Believers/Strong Endorsers

Align privacy and IT with business objectives

Aggregate	40.1
Finance	43.0
Retail	32.8
Healthcare	38.7

Relationship Between Brand Strength and Customer Privacy

True Believers/Strong Endorser relationships between protection of customer information and each of the image components of brand strength (aggregate sample):

Overall reputation	.72
Quality of management	.80
Investment potential	.71

True Believers/Strong Endorsers Relationships

Perception that the firm does a good job in balancing the needs of various stakeholders correlates with each image component of brand strength:

Overall reputation	.50
Quality of management	.50
Investment potential	.63

Profit

$$\text{ROE} = \frac{\text{Net Income}}{\text{Assets}} \times \text{Leverage}$$

Self Perpetuating Cycle of Innovation and Investment



Governance and Leadership: Data Governance Illustration

- Adopt new security technologies, quicker
- Defend assumption of corporate liability
- Advocate tax policy for security investment
- Accommodate competing interests
- Advance international cooperation

(and always, walk the talk, as in security policy
versus social engineering)

History punishes those who come late.

Russian Proverb

Thank you!

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